

September 12, 2005

MEMORANDUM

TO: Local Issuers Interested in Participating in Subject Sale

FROM: Richard A. Davis
Public Finance Manager

SUBJECT: Virginia Public School Authority ("VPSA") School Financing Bonds
(1997 Resolution) Series 2005 D

Attached herewith is a preliminary debt service schedule showing estimated debt service on your local school bond. **Please note that the interest rates shown on the enclosed schedule are estimated rates. The interest rates for your bond will be based on market interest rates at the time of the sale. Those rates cannot be determined at the present time.** Copies of your estimated debt service schedule are also being e-mailed to your bond counsel noted on your application form. The draft of the Bond Sale Agreement ("BSA") can be found on the Department of Treasury website on the Internet at the address listed below. The BSA and Appendix D thereto are to be filed with the VPSA at the address indicated in the BSA no later than **September 28, 2005. Please utilize an overnight delivery service to ensure timely delivery.** A final debt service schedule will be provided after the VPSA's bonds are sold on or about October 12, 2005. **The closing date will be on or about November 10, 2005.**

The electronic information package, including all form documents, is available at the Department of Treasury home page on the Internet at:

<http://www.trs.virginia.gov/textfiles/VPSA/bondsaleagreement.htm>

For local issuers other than those participating in the Interest Rate Subsidy program, the Series 2005 D transaction continues the practice of recent sales in that the VPSA is structuring the financing to purchase each locality's local school bonds for a price substantially equal to the amount of proceeds the locality has requested. This practice is intended to assure that the purchase price VPSA pays will finance projects adequately and at the same time accommodate a range of possible loan maturities and amortization schedules within the participant pool. As in prior recent transactions, actual market conditions will be evaluated in the pricing and sizing of the transaction. Unlike some prior non-subsidy transactions, VPSA expects to resize to the extent permitted the par amount of local school bonds on the VPSA sale date. For example, if a locality's requested loan maturity and amortization schedule results in a bond that is valued at a

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price greater than par, VPSA intends to decrease the par amount of such bond to the extent required to provide proceeds approximately equal to, but not less than, the amount of proceeds requested. Conversely, if a locality's requested loan maturity and amortization schedule results in a bond that is valued at a price less than par VPSA is willing, at the locality's request, to increase the amount of bonds to the extent required to generate the proceeds requested. To obtain this flexibility, the locality, particularly a locality requesting maturities longer than 20 years, level debt service (as opposed to level principal) or deferred principal amortization should set the authorized maximum principal amount of its bonds at 5% above the amount of proceeds requested.

In general, the VPSA would expect to downsize the par amount of bonds with relatively more rapid amortization schedules (shorter maturities, level principal) and the VPSA would expect to upsize the par amount of bonds with relatively slower amortization schedules (deferred principal, longer maturities, level debt service). **Because the VPSA cannot predict the couponing structure of the winning bid, the VPSA is requesting that each locality authorize a "not to exceed" or "up to" principal amount of bonds that is sufficiently in excess of the amount of proceeds requested. In the event a locality's bond structure would result in a discount purchase price and the maximum principal amount of bonds authorized does not exceed the amount of the proceeds requested by at least the amount of the discount, the resulting purchase price paid will be less than the amount of the proceeds requested.**

The Bond Sale Agreement and resolution account for this sizing approach. First, in the header on the first page of the Bond Sale Agreement there are two line entries related to dollar amounts. The Maximum Authorized Par Amount should equal the Proceeds (Requested) plus an up to 5% cushion. VPSA and its financial advisor will be pleased to assist you in quantifying an appropriate cushion. Second, the Bond Sale Agreement and bond resolution do not include the purchase price within a percentage range of par parameter. The purchase price is to be "substantially equal" to the Proceeds (Requested) except in the cases where issuing at the maximum authorized amount would not be sufficient to generate the requested proceeds. In such instances where a discount would be paid, bracketed language is included in the bond resolution for a minimum purchase price parameter as a percentage of proceeds requested; if such a figure is required the locality and its bond counsel should consult with the VPSA and its financial advisor in developing the parameter. An acknowledgment relating to the possibility of receiving a discount is included in the Bond Sale Agreement. Third, the resolution includes certain recitals, (there are similar acknowledgments in the Bond Sale Agreement) which explain sizing adjustments and VPSA's objective to pay a purchase price that reflects the market value for the local school bonds.

The Local Issuer transcript delivery requirement has been modified in the Bond Sale Agreement. Counsel for Local Issuers will now be required to send one original transcript to Sidley Austin Brown & Wood LLP.

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Please ensure that the minutes for any resolution/ordinance taken by your school board and board of supervisors/council indicate by name each member voting, and the member's vote (or abstention). The Virginia Supreme Court in Town of Madison v. Ford held that the minutes of the town council's meeting stating that all members were present and that the motion to adopt ordinance carried unanimously were **insufficient** to comply with Article VII, Section 7 of the Virginia Constitution. That provision states, "On final vote on any ordinance or resolution, the name of each member voting and how he voted shall be recorded." The Bond Sale Agreement resolution form (Appendix B) accommodates this requirement.

At the VPSA Board meeting on September 8, 2005, the Board will consider approval of the applications received from localities interested in participating in the financing. Applications are being reviewed and approval of funding amounts is expected on that date. If approved, localities and their counsel will be notified of their anticipated funding amount. If not approved, you will be notified as soon as possible after the Board meeting. If you have any questions about the BSA, or need assistance, please call me at (804) 225-4928, Michael Walsh, Senior Public Finance Analyst, at (804) 225-4926, or Connie Vaughan, Public Finance Analyst, at (804) 225-2268.

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Attachments

c: A. Francis Robinson, Jr., Esq.
 Sidley Austin Brown & Wood LLP
 Matthew M. Hughey, Esq.
 Sidley Austin Brown & Wood LLP
 John J. Conrad
 BB&T Capital Markets